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AUTOMOTIVE MARKETING

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REPORT CARD

Portrait of a Merging Market

AUTOMOTIVE MARKETING

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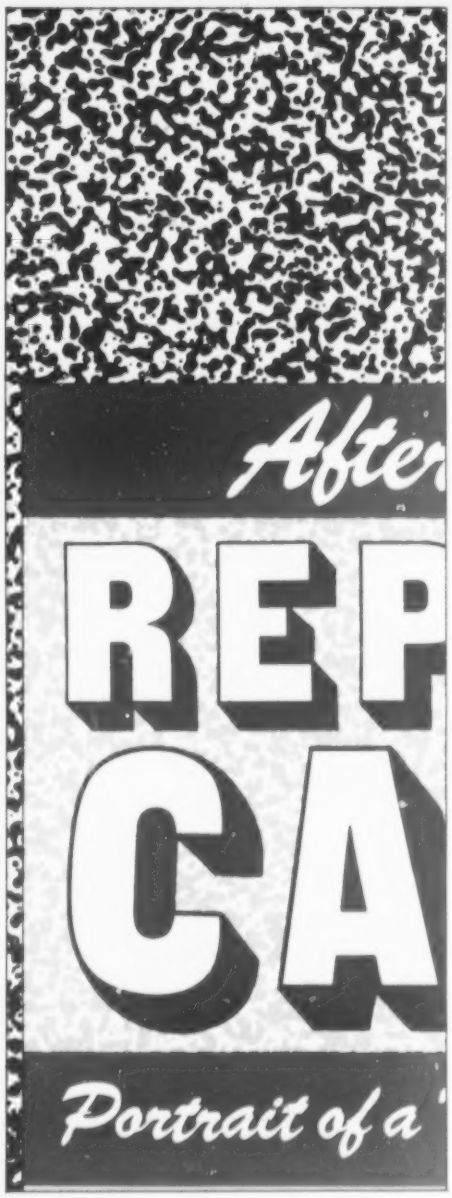

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Aftermarket

REPORT CARD

Portrait of a Merging Market

As 1992 begins, we quizzed a cross section of Automotive *Marketing*'s readers on the aftermarket—where it is and where it's going.

by Jane Weintraub
Senior News & Feature Editor

...autumn is traditionally the time of year for ...forecasting the future, so we asked a cross section of our readers about the aftermarket and where they see it heading. We surveyed about 850 headquarters, ranging from auto dealers to warehouse distributors to jobber retailers to traditional jobbers. We think we have a pretty representative sample: about 2% were 100% retail—auto another 5% were 100% wholesale. The rest were somewhere in between with the average around 55% wholesale. Some 25% of the total respondent's sales went to parts for imported cars.

SOME DEMOGRAPHICS OF THE SURVEY BASE

We surveyed about 250 headquarters of our 43,000 readers about the state of the aftermarket. We asked them to identify their business. The breakdown was this:

Jobber/retailers	108	46%
Traditional jobbers	69	30
WDs	30	13
Retailers	26	11

Programmed Distribution

Roughly 55% were members of programmed distribution groups. That means if we leave aside retailers, about two-thirds of the jobbers or WDs on the survey were members of one group or another. NAPA was the number one group with some 21% of belonging to it. Carquest and Parts Plus were second with 11% and 10% respectively.

It seems as though programmed groups have gone about as far as they can go. Only 4% of those not belonging to a group intend to join in the future. The rest value their independence. As Theresa Stevenson of G.O. Parts in Portland, OR, replied, "My installer accounts still prefer traditional name brand recognition." A surprising number were members and didn't find enough benefits to being a programmed jobber to continue. Interestingly enough, about 6% of those who are currently members don't see any benefit to belonging to a group.

PROGRAMMED DISTRIBUTION

Most jobbers surveyed belonged to a program distribution group. But, of those not already group members, only 4% planned to join.

Programmed group members:	55%
Non-members	45
The leading groups:	
NAPA	21%
Carquest	11
Parts Plus	10
Big A	6
Auto Value	5
Pronto	5
The chief benefits to belonging to a group (more than one answer):	
Lower prices	47%
Advertising	41
Obsolescense protection	24
Group Name	19
Daily deliveries	15
Return policy	8
Private labels	7
No benefits	6

We asked the 96% why they didn't want to join a group:

1. *I've always been independent*
2. *Don't like dealing with a single source*
3. *Cost is too high*
4. *I was a member and didn't like it.*

But most do. Price and advertising are the number one and number two stengths of programmed group membership. The name of the group (nationally known), daily deliveries (for rural jobbers), return policies, and private labels to compete were other key reasons to belong.

WDs reported 19% of their sales were retail.

Retailers reported 11% of their sales were wholesale.

Traditional jobbers reported 63% of their sales were wholesale.

Jobber/retailers split sales almost evenly: 53% wholesale, 47% retail.

Sales of parts for imported vehicles averaged 23%.

Controlling Costs

However, with the continuing stress from parts proliferation, fully a quarter of programmed group members saw protection from obsolescence a key reason to belong to a programmed group. In terms of parts proliferation, 83% of our survey reported SKU increases since 1981. The average growth in inventory was some 56%, which means a store stocking 10,000 SKUs in 1981 is now stocking 15,600.

Continued parts proliferation ties in neatly with a second question we asked our readers: What are you doing to control costs? We received quite a few replies to this questions, but the single largest response involved some adjustments and cutting inventories. Jobbers are cleaning out C and D numbers and paying much closer attention to obsolete part numbers. This was far and away the leading cost cutting activity.

Gary Sheets of Mr. G's Auto Parts, Genesco, IL, sums up the major secondary cost cutting measures: "Unprofitable sales routes are being discontinued and hours of employees are being reduced. No overtime. The building is made more efficient in terms of weatherproofing to cut utility bills."

In the Hawaiian Islands, Louis Vierra of SS Auto Parts, writes, "Paying close attention to inventory level and movement to assure our

CONTROLLING COSTS

We asked the survey members what steps they were taking to control the growing costs of operation. Here is a compilation of the kind of replies we received in order of popularity:

1. ***Inventory:*** *Adjusting inventories lower, cleaning out C and D numbers. Paying closer attention to obsolete numbers. Buy to meet demand. Shopping around for price.*
2. ***Personnel:*** *Employees work fewer hours. No overtime. I work more myself. Cut the number of employees.*
3. ***Delivery:*** *Adding delivery charges. Grouping deliveries. No special order without a deposit.*
4. ***Advertising:*** *Cutting advertising.*
5. ***Miscellaneous:*** *Shop for cheaper insurance. Do own accounting. Cut energy costs.*

dollars work to our advantage. Monitor employee productivity, advertising expenses, and just awareness and attention to costs and expenses."

One retailer said that he was now doing his own bookkeeping which may be more costly in the long run.

Technology

One reason for rising costs is the continued increase in the complexity and technological sophistication of today's vehicles. While it is expected to have a severe impact on the DIY market, more complex technologies are going to present a problem for the counterpeople of the aftermarket.

Some 76% of our survey group said more complex technologies were causing severe problems in running their business. A very small percentage of the survey, in fact, has dropped some lines because of the complexity. However, among retailers, almost half said there were no problems in some cases because the chain simply didn't handle the more complex parts or the chain had trained counter help.

More than half the survey reported little or no increased training to keep up with technology. Among those that did receive additional training, the training came from manufacturer sponsored clinics or manufacturer bulletins.

But while technical training is needed, continued sales training is needed. "The aftermarket is heading into a very complex market," writes Randy Wilson of Ham's Auto Parts in

PARTS PROLIFERATION

We asked about the difference in SKUs or part numbers between 1981 and 1991.

SKUs increased:	83%
SKUs Decreased	8
SKUs stayed the same	9

Survey wide, the average increase in SKUs was 56%, or a store stocking 10,000 SKUs in 1981 is now stocking 15,600.

Forsyth, GA. "Countermen now need a continuing education program to stay up with today's changing market. Not only do our people need to be knowledgeable and sales oriented, they absolutely must be people oriented. Without making our customers repeat customers, we are *doomed*."

TECHNOLOGY

We asked whether more complex automotive technology was causing serious problems in running a business. The percentage of retailers who said no was more than double the percentage of jobbers suggesting that retailers still don't stock as many complex parts as jobbers.

Yes	76%
No	24

We asked how the business was keeping up with technology:

No answer	52%
Manufacturer clinics	16
More training	12
Manufacturer bulletins	11
Get out of complex lines	5

We asked who did the training of new people:

In-store only	57%
Manufacturer aided	19
WD aided	10
Headquarters	7

Shows/Recycling

There was quite a bit of complaining and comment on the survey about government interference in the aftermarket. And so we wondered how many belonged to the trade associations that can speak for the aftermarket participants. Just 47% belonged to one or another of the trade associations. The lowest percentage of trade association members was among retailers, where only a quarter of those belonged, while half the WDs belonged to an association.

The leading associations were local groups; the leading national association was the Automotive Service Industry Association (ASIA) which commanded 22%. Other associations, the Automotive Parts and Accessories Association (APAA), Specialty Equipment Market Association (SEMA), and Automotive Warehouse Distributors Association (AWDA) all received about 10% each of the survey's loyalty.

A larger percentage, 59%, attended some national trade show every year. Again, WDs led the list with 88% attending one or another show. Almost three-quarters of the retailers also attended a national trade show.

Since almost everyone sells motor oil, we wondered about what retailers and jobbers were doing about waste oil. In May, the Environmental Protection Agency (EPA) must rule on whether or not used motor oil is a hazardous waste. Although several states have already declared oil a hazardous waste, a full 78% of the survey are doing nothing with it. Quite a few suggested that used oil was "the customer's problem, not mine." That may not be quite true. However, a few more reasonable readers said they were simply waiting until the hodgepodge of rules and regulations were clarified.

Where Are We Going?

Last year was a perilous time for retailers in all sectors: According to Dun & Bradstreet, New York, some 17,300 retail businesses will go belly up in 1991 once final numbers are compiled, a 26% increase over 1990's 12,826. And like the rest of the country, our readers are concerned about the future. For example, just more than half (56%) predict rising sales in 1992, and that percentage drops below half in several areas of the country. "I see business down about 10% in 1992," writes Rose Crotty, owner of Crotty's Auto Parts in Jeffersonville,

RECYCLING

We asked what outlets were doing about the problem of oil recycling:

Nothing at all	78%
Picked up by recyclers	13
Burn in waste oil heater	5
Send to local landfill	4

These were some of the resposes to why outlets were doing nothing about recycling oil:

1. It's the customer's problem, not mine.
2. Quit selling oil 30 years ago when grocery stores started selling it.
3. When recycling begins here, we will discontinue oil sales.
4. No viable program yet; California has too many complex and misleading laws.
5. Zoning laws do not allow oil storage.

NY. "Our area is very sensitive to the many second home owners here. Construction was booming three years ago but has fallen on hard times. I'm not sure where the aftermarket is heading but with so many new parts being added each year and more inventory needed to do business certainly makes it rough. That combined with new rules and regulations concern-

TRADE ASSOCIATIONS

We asked how many members of the survey belonged to a trade association:

Programmed jobbers	62%
WDs	50
Non-programmed jobbers	35
Retailers	25

We asked how many belonged to the major national trade associations:

ASIA	22%
APAA	11
SEMA	11
AWDA	10

We asked how many attended national trade shows:

WDS	88%
Retailers	73
Non-programmed jobbers	56
Programmed jobbers	43

1992 MARKET FORECAST

We asked survey members to forecast sales for 1992:

Sales increase	56%
Sales decrease	15
Sales stay the same	29

Results, however, differed according to the kind of outlet. WDs were the most positive while non-programmed jobbers were the most negative.

WDs	74%
Retailers	60
Programmed jobbers	58
Non-programmed jobbers	44

There were also large variations by region of the country. The most positive areas of the country were:

Area	Sales Increase
California	68%
The South	65
The "Auto Corridor" (OH-MI-IN-KY-TN)	64

On the other hand, the most negative areas were:

Area	Sales Increase
New England and the Northeast	45%
Rocky Mountain states	46
Texas-Oklahoma-Louisiana	48

ing oil, Freon, and antifreeze takes the fun out of the business."

Perhaps the last statement merits a comment; there seems to be a consensus that business is business and that it is no longer *fun* to be an automotive jobber or retailer. The jobber or retailer has to work to earn and keep his customers. Indeed, as Mike Beasely of Automotion Supply in Ervin, NC, puts it, "We're heading for specialization in our area. Mass retailers holding on to customization and accessories. Jobbers having to pick and choose an area to fully stock lines: Front wheel drive, electronics and sensors, brakes and ABS, heavy duty, remanufactured parts, fleet servicing, tools, air conditioning, etc. There's not much gravy left for the independent jobber."

Since we asked our readers to fill in open ended comments on the aftermarket, it's kind of hard to do justice to their replies with summaries. However, we thought the key answers broke down into four areas of concern:

- First, most feel the large chain will dominate fast turn parts and WD-owned stores will dominate the wholesale market. Others added the dangers of manufacturers selling direct to installers.
- Second, the need for increased training in the face of changing technology
- And third, continued government interference in the market.

But still, most of our readers were guardedly optimistic. For example, Kurt J. Palmberg of Mid-Valley Auto and Truck Parts, Turlock, CA, sees his sales up in 1992: "Because manufacturers are all too often turning their backs on traditional distribution, many jobbers will be squeezed out of the marketplace. But I don't believe manufacturers and WDs can provide the level of service a jobber can, so I'm confident that if we provide great customer service we will grow. We are noting those manufacturers and WDs who turn away from traditional distribution and are refusing to do business with them. But we can't dwell on the negatives. We must be positive in our quest to be the best we can be. It is up to us, not someone else."

And that's a good piece of advice. ■